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COMPTROLLER OF THE CURRENCY, OFFICE OF

Poor policies, planning and managment were the most significant causes in failures in banks since 1979, according to a recent study by the Office of the Comptroller of the Currency (OCC). Robert Clarke, Comptroller of the Currency, said the results of the first of a two-phase study showed that the failed banks surveyed had several features in common. Most of the institutions were small; a disproportionate number were located west of the Mississippi River and more than 85% were located in the OCC's Midwestern, Southwestern, and Western districts, Clarke noted. Almost 60% of the failed banks studied were judged to have a Board of Directors that either lacked the necessary banking knowledge or was uninformed or passive in its supervision of the bank's affairs. Clarke stated that it was often the combination of poor management and distressed economic conditions, not economic decisions alone that was the driving force behind the failures surveyed. According to the study, significant problems for failed banks included: 1) nonexistent or poorly followed loan policies; 2) inadequate systems to ensure compliance with internal policies or banking statutes; 3) inadequate controls or supervision of key bank officers or departments; 4) inadequate problem loan identification system; 5) decisions made by one dominant individual; and 6) nonexistent or poorly followed policies for asset and liability management. The second phase of the OCC study, still on-going, will analyze national banks that were considered problems during the same period but recovered and national banks that remained healthy throughout the period.

GENERAL ACCOUNTING OFFICE

Virginia Robinson, CPA, has been named Executive Director of the Joint Financial Management Improvement Program (JFMIP) of the Federal government. Mrs. Robinson was selected to fill the position by the four principals of JFMIP: Comptroller General Charles A. Bowsher, Secretary of Treasury James A. Baker, Office of Management and Budget Director James C. Miller, and Office of Personnel Management Director Constance Horner. Prior to being named to her new position, Mrs. Robinson served as an Associate Director of the Accounting and Financial Management Division of the General Accounting Office (GAO), a post she had held since 1981. Before working for the GAO, she was Chief of the Financial System Branch and Acting Director of the Office of Financial Policy and Analysis at the Department of Energy. Mrs. Robinson has also served in accounting positions with the Department of Commerce and Department of the Navy. According to the GAO, JFMIP was created in 1948 and given statutory authority by Congress in 1950 to "improve and coordinate financial management policies and practices throughout the government as part of an effort to contribute to the efficiency and effectiveness of Federal programs." Mrs. Robinson has been a member of the AICPA since 1976.

TREASURY, DEPARTMENT OF

Beginning 2/1/88 all fundraising solicitations from noncharitable tax-exempt organizations, political action committees and political organizations must state in a "conspicuous and easily recognizable" format that contributions or gifts to the organizations are not deductible for Federal income tax purposes, according to IRS News Release IR-88-13. The new requirement to disclose that contributions are not deductible was added to the law by the Revenue Act of 1987 and affects solicitations for contributions in written form, by television, radio or telephone, the IRS said. Organizations whose gross receipts are normally less than $100,000 are exempt from the disclosure requirement. The IRS said that failure to disclose this information could result in a penalty of $1,000 for each day the failure occurs, up to a maximum annual penalty of $10,000. The IRS said in cases of intentional disregard of the law, the $10,000 limitation does not apply and more severe penalties apply. No penalty will be imposed if the failure is "due to reasonable cause," the IRS said. According to the Service, an example of reasonable cause occurs when an organization had on hand at the time of the enactment of the law a printed supply of time-sensitive fundraising solicitations without the disclosure statement, the costs to add a statement of nondeductibility would be a financial hardship, and the organization distributes them before 4/1/88. The IRS said that further guidance relating to the fundraising disclosure requirements will be issued in the future.

THE WHITE HOUSE

Myron J. Mintz, CPA, has been appointed by President Reagan to be a member of the Advisory Committee to the Pension Benefit Guaranty Corporation for a term expiring 2/19/90. Mr. Mintz has been with the Washington, D.C. law firm of Dickstein, Shapiro & Morin since 1973 and has been senior partner and chairman of the firm's tax department since 1975. Prior to taking the position with Dickstein, Shapiro & Morin, Mr. Mintz served as Assistant General Counsel for the Cost of Living Council for the Executive Office of the President, a position he assumed in 1971. Mr. Mintz also served as an attorney-advisor to U.S. Tax Court Judge Bruce M. Forrester from 1968 to 1970.

SPECIAL: DINGELL SUBCOMMITTEE CONTINUES ACCOUNTING OVERSIGHT HEARINGS

The Oversight and Investigations Subcommittee of the House Energy and Commerce Committee, chaired by Rep. John Dingell (D-MI), continued its oversight of the accounting profession 1/27/88 at a Washington, D.C. hearing. The subject of the hearing was the July 1987 failure of the ZZZZ Best Company, a California carpet cleaning and insurance restoration concern to refurbish property damaged by fire and water. Rep. Dingell described the fraud allegedly perpetrated by ZZZZ Best as "a massive Ponzi scheme" and said in his opening statement, "The question this Subcommittee will explore today is the same question that has concerned us during numerous hearings over the past three years--'Where were the independent auditors and others who are paid to alert the public to fraud and deceit?' The fact that auditors and attorneys repeatedly visited make-believe job sites and came away satisfied does not speak well for the present regulatory system. The fact that [the] audit firm discovering the fraud resigned the engagement without telling enforcement authorities is even more disturbing. The time has come to correct the deficiencies in the present system." Among the witnesses appearing were two law enforcement officials--Robert C. Bonner, the U.S. Attorney handling the case for the Federal government, and Detective Mike Brambles, with the Los Angeles Police Department's Organized Crime Intelligence Division. They testified about the history of the ZZZZ Best case and characterized ZZZZ Best's efforts to deceive its auditors as "classic sting" operations. They also answered questions about the role of the outside auditor in detecting fraud. Mr. Bonner prefaced his remarks by saying that he has "serious doubts that any regulatory scheme" can be devised or improved to prevent fraud in the sale of securities. However, he said he thought that independent auditors should have a duty that "goes beyond informing management and resigning." He said that independent auditors "at a minimum" should have an obligation to make public disclosure of fraud to the proper authorities.

SPECIAL: HEARING ON IRS CODE PENALTIES SCHEDULED BY SENATE SUBCOMMITTEE

A review of Internal Revenue Code penalties is the subject of a 3/14/88 Senate Finance Subcommittee hearing. Senator David Pryor (D-AR), chairman of the Subcommittee on Private Retirement Plans and Oversight of the Internal Revenue Service, in announcing the hearing, noted this was "just the beginning of the subcommittee's review of penalty reform." Further, Sen. Pryor said he anticipates additional hearings and intends to "establish a private sector task force to assist the subcommittee in its work." Specifically, Sen. Pryor said he wanted "to look into concerns that, by raising penalties so much over the past few years, Congress has begun looking to penalties as a new source of revenue rather than as an enforcement tool." Witnesses for this hearing will appear by invitation only. However, those wishing to submit a written statement for the record may do so. Written statements must be received no later than 4/11/88. The hearing is scheduled to begin at 10:00 a.m. in Room SD-215 Dirksen Senate Office Building. For further information please contact the Senate Finance Committee at 202/224-4515.

SPECIAL: BIENNIAL JOINT INTERGOVERNMENTAL AUDIT FORUM CONFERENCE SCHEDULED

The 7th Biennial Joint Intergovernmental Audit Forum Conference has been scheduled for 5/22-25/88 at The Pointe at South Mountain in Phoenix, AZ. The conference provides an opportunity to learn, share, and communicate with leaders in government, professional associations, and academia about the dynamics of change in governmental auditing. The session includes such topics as Auditing and Accounting Standards Update, The Expectation Gap in Governmental Auditing, The Impact of Technology On Auditing, Developing a Unified Approach to Evaluating Internal Controls, Auditor Education and Training, and External Quality Assurance. Speakers will include Charles A. Bowsher, Comptroller General of the United States, and Frederick C. Wolf, Director, Accounting and Financial Management Division, General Accounting Office. The recommended CPE credit is 17 hours for participants. For further information contact Valerie Lau, Executive Director, The Western Audit Forum, at 415/566-6200.

For further information contact Shirley Twillman at 202/737-6600.

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1455 Pennsylvania Ave., N.W., Washington, D.C. 20004-1007

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